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TAGS: [EFIN](#) [EINV](#) [PREL](#) [QA](#) [IR](#)  
SUBJECT: QATARI OFFICIALS DISCUSS CURRENCY, SOVEREIGN  
WEALTH FUNDS, INVESTMENT, AND IRAN WITH SECRETARY PAULSON

Classified By: Charge d'Affaires Michael A. Ratney,  
for reasons 1.4 (b) and (d).

[11](#). (C) Treasury Secretary Henry Paulson visited Qatar May 31 ) June 1 for meetings with Prime Minister/Foreign Minister Sheikh Hamad bin Jassim Al Thani, Finance Minister Yousef Hussein Kamal, and Central Bank Governor Sheikh Abdulla bin Saud Al Thani. All three officials told Secretary Paulson that Qatar has no plans to abandon the dollar peg or to revalue its currency; expressed concern about IMF-developed guidelines for Sovereign Wealth Funds; and discussed Qatar's primary economic challenge - dealing with an high rate of inflation. Secretary Paulson was joined in the meetings by Under Secretary for International Affairs David McCormick, Under Secretary for Terrorism and Financial Intelligence Stuart Levey, Chief of Staff Jim Wilkinson, and Charge.

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FINANCE MINISTER YOUSEF KAMAL  
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[12](#). (C) On the dollar peg, MinFin Kamal said Qatar is not going to change anything ) "not today, not tomorrow, and not in the coming years." Kamal noted that Qatar is not going to change its mind. In the past, he added, there had been arguments about the desirability of revaluing or abandoning the peg. But Kuwait switched to a basket of currencies while Qatar did not, yet there has been no significant difference in inflation levels between the two countries.

[13](#). (C) Kamal remarked that most of the products imported into Qatar, even Japanese cars, are priced in dollars, and there has been no change in those prices over the past year. He considers the dollar's depreciation a short-term phenomenon. Secretary Paulson concurred with Kamal's view that the peg had little impact on inflation.

[14](#). (C) On inflation, Kamal said it was imported building materials, such as aggregate, that was now really driving Qatar's inflation, which he put at 13.7 percent. The shortage of jetties at the port was slowing imports and driving up prices. Kamal said the cost of building an LNG liquefaction train has tripled in the past four years. What used to cost USD one billion and take 26-28 months now costs \$3 billion and takes 36 months to build. For raw materials that are produced in Qatar, such as sand, steel, the government is planning to fix the producers' margins in order to control the prices.

[15](#). (C) Kamal said food prices remain a serious problem. GCC trade ministers met last week to formulate a strategy to stabilize food prices, particularly for staples like wheat flour, rice, cooking oil, and baby milk. Qatar, he said, is also considering subsidies for certain commodities; the only alternative is to increase salaries, but that puts more cash into the banking system and fuels inflation further.

[16](#). (C) Looking to the longer term, Kamal said he had

personally been traveling to Vietnam, Cambodia, Yemen, Sudan, Tajikistan, and elsewhere to look into investing in agricultural production for the Qatari market. Qatar is also looking at establishing a company with Brazil and other investors to develop technology to grow vegetables with limited soil and water. The system is expensive, but it could be used to supply the hotel and catering market in Qatar, which already resells the food at much higher prices, and take the pressure off the local market. Qatar is also thinking about fish farming.

¶17. (C) On Sovereign Wealth Funds (SWFs), Kamal said he believes the IMF-proposed rules are "not for everyone," that they don't necessarily benefit either the investors or the receivers of the investments. He singled out transparency requirements as a particular concern for the Qatar Investment Authority (QIA). The QIA, he said, cannot disclose its asset allocation ) this is against GOQ regulations. Only five or six people in Qatar know this information, he explained, and even to the IMF, it is only "whispered."

¶18. (C) Paulson responded that the U.S. doesn't see SWF investments that come to the United States as a threat, but as a vote of confidence. Ultimately, every enlightened country will want investment, but everywhere in the world there is irrational protectionism and sometimes a backlash directed at SWF investments. What the IMF has put out are guidelines, not rules, and the most important aspect of them is governance. Some funds, such as Norway, have a great deal of transparency. But while there will be countries that do not disclose their asset allocation, they can still show how they are run.

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¶19. (C) Kamal said some countries don't want SWF investments in certain sectors for national security reasons. If that's the case, he said, "just tell me" which sectors or companies those are. U/S McCormick explained that the U.S. worries that these sort of restrictions are a way for countries to put up barriers for economic reasons, but claim this is for national security reasons.

¶10. (C) Secretary Paulson said that in the two years since the Dubai Ports issue, the number of investments from the Gulf in the U.S. has doubled, and the dollar value of these investments has quadrupled. We want to continue to encourage investment and hope that OECD countries aren't going to be listing a lot of industries as strategic.

¶11. (C) Kamal closed by telling Secretary Paulson that Qatar was starting a USD 2 billion fund to invest in real estate in the U.S., using some of the excess liquidity in Qatar's banks ) a development Paulson welcomed.

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PRIME/FOREIGN MINISTER HAMAD BIN JASSIM AL THANI  
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¶12. (C) Qatar's Prime Minister/Foreign Minister Sheikh Hamad bin Jassim Al Thani (HBJ) told Secretary Paulson that Qatar would like to "stay with the dollar." He said Qatar had studied other options, including a transition to a basket of currencies, and a freely floating GCC currency, but decided in the end to stick with the dollar. In fact, HBJ said, only that day Qatar had decided to reduce by 20 percent Qatar's euro currency holdings and shift them to dollars. He said he believes the euro had peaked and hopes the dollar recovers. He nevertheless urged the USG to "do something" quickly to reverse the dollar's decline.

¶13. (C) Secretary Paulson told HBJ that the dollar peg is ultimately a sovereign decision. He agreed Finance Minister Kamal's analysis that a change in the dollar peg would have little impact on inflation. Secretary Paulson said that it's important to look at how the U.S. economy is doing longer

term, adding that he wouldn't bet on the economies of Japan or the EU to outperform the U.S. economy in the long run and said he expects to see stronger U.S. growth by year end. A strong dollar, he added, is in the U.S. interest. The U.S. is currency experiencing difficulties, but we are working through them, and that in the longer term the fundamental economic strength of the U.S. economy will be reflected in the value of the dollar.

¶14. (C) Turning to SWFs, Secretary Paulson explained that he chairs the CFIUS committee in the U.S. and, since the Dubai Ports issue, there have been no problems with foreign investments from the Gulf. In fact, the number of investments in the U.S. from the Gulf has doubled, and the dollar value of these investments had increased 400 percent. In the U.S., we regard SWFs as an attractive pool of capital. While we recognize the temptation of foreign investors to say "if you don't want our money, we'll go somewhere else," Secretary Paulson said he believes SWF guidelines, as developed by the IMF, give us a tool to fight protectionist sentiment.

¶15. (C) HBJ said Qatar wants to use its wealth to build the country's future. Unlike Russia or China, Qatar has no political agenda for its SWF, only to make to make money. HBJ said it is important to obey all the rules in each country, and Qatar has hired lawyers in the U.S. and elsewhere to ensure that Qatar's SWF understands all the laws and regulations.

¶16. (C) Secretary Paulson raised the FATF advisory on Iran, noting that after the UN Security Council Resolution, the U.S. is very conscious of what Iran is doing to access the international financial system. HBJ said he is sure this is less of a problem in Qatar than elsewhere in the GCC, adding that Qatari authorities are monitoring transactions and the Qatar Central Bank is very tough. He said he knows the U.S. sends Qatar lists of names and the Central Bank to check, but they haven't found any suspect accounts yet. U/S Levey encouraged Qatar to keep checking.

¶17. (C) Secretary Paulson closed by discussing with HBJ a new clean technology fund the U.S. is working on with other governments from the OECD and elsewhere aimed at climate change and global warming. He explained that it will be housed at the World Bank and will involve both governmental donors and the private sector with the objective of

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developing cleaner technologies. HBJ said he would like to learn more about the fund; Secretary Paulson offered to follow up.

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CENTRAL BANK GOVERNOR ABDULLA BIN SAUD AL THANI  
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¶18. (C) Secretary Paulson's meeting with Qatar's Central Bank Governor, Sheikh Abdulla bin Saud Al Thani, focused on Qatar's struggle with inflation. Sheikh Abdulla said the major problem is prices for agricultural goods and other commodities since that hits Qatar's core inflation rate and CPI. Asked if Qatar had plans to subsidize food, Sheikh Abdulla said Qatar does control rent prices, but claimed to have no insights into the Finance Ministry's plans on fiscal policy. He said the Central Bank is doing its job with monetary policy, particularly with respect to open market operations to absorb excess liquidity, including issuing CDs and increasing reserve requirements.

¶19. (C) Asked about the dollar peg, Sheikh Abdulla said "this will not change." Secretary Paulson noted that the Qatari Finance Minister had earlier told him that his analysis is that inflation is a result of commodity prices, not the declining dollar. Sheikh Abdulla said that rents and construction costs are driving inflation, but Qatar has been

through cycles like this four times before since the 1970s. The real concern, he said, is food prices.

¶20. (C) Asked how Qatar planned to deal with the recent UN Security Council Resolution on Iran, Sheikh Abdulla said the QCB has a good system in place to monitor transactions. The QCB is able to trace all activity through the system on a daily basis, including transactions with other banks in Qatar, and can determine if anything suspicious is happening. Sheikh Abdulla said the Central Bank has good cooperation with U.S. authorities, including the U.S. Federal Reserve, on money laundering issues.

¶21. (C) Sheikh Abdulla asked about Sovereign Wealth Funds, commenting that he didn't completely understand the objective of the IMF in this regard. Secretary Paulson said that while there are protectionist sentiments everywhere, the U.S. welcomes SWF investments. In addition, there is a new CFIUS law in the U.S. that should be easier to administer. He explained as well that the primary concern is governance, and that SWF guidelines are about best practices, and in that sense Qatar ) which already manages its SWF professionally - should welcome them. These guidelines should help fight off protectionism and convince other countries not to create obstacles to Qatar's SWF investments.

¶22. (U) Secretary Paulson's delegation has cleared this message.

RATNEY